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National Endowment for the Arts

**ANNUAL FINANCIAL REPORT
FISCAL YEAR 2014**

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2014

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NATIONAL ENDOWMENT FOR THE ARTS

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Annual Financial Report for Fiscal Year 2014

November 2014

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Fiscal Year 2014 Annual Financial Report

~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2014 Annual Financial Report*, which summarizes the Agency's financial performance during the past year.

Organizational Overview

In 2015, the [National Endowment for the Arts](#) (NEA) will celebrate its 50th anniversary. From that long ago date in September in 1965, when President Lyndon B. Johnson signed legislation authorizing the Arts Endowment, to the present day, the agency's record of cultural, civic, and economic enrichment reflect the arts' enduring impact on the lives of all Americans.

The NEA's vital support of the arts acts as a catalyst and collaborator as it makes key investments throughout the nation, leveraging resources, and providing strategic leadership through core programs, including those for dance, design, folk and traditional arts, literature, local arts agencies, media arts, multidisciplinary arts, music, theater, visual arts, and through other programs.

NEA research indicates that the *ways* Americans are participating in the arts are expanding, along with the demographics of those who participate. There is more racial/ethnic diversity reflected in the pool of Americans who are most likely to approach art in new ways, such as electronic media, to create and share music and visual art. In this the digital age, 74% of American adults use mobile devices, computers and tablets to view and listen to art. Rural and underserved communities are also presented with more opportunities to participate. Based on recent figures, nearly 15% of the NEA's direct grantmaking dollars go to projects that feature some rural component.¹ Further, over half of NEA-funded arts events take place in locations where the median household income is lower than that of the U.S. as a whole.

The arts also play a significant role in equalizing educational opportunities; students with an education rich in the arts have higher GPAs and standardized test scores, lower drop-out rates, and even better attitudes about community service – benefits reaped by students regardless of socio-economic status.

Art is an irreplaceable way of understanding and expressing the world, and it links our ability to create and innovate in ways beyond compare. As Albert Einstein (one of the greatest physicists of all time and a fine amateur pianist and violinist) said, "The greatest scientists are artists as well." The NEA similarly believes in and supports the connection of arts, science, engineering, and the humanities to catalyze new insights and solutions which over time will address some of our nation's highest priorities.

¹ This estimate excludes the NEA's State & Regional Partnerships, and grants to individuals.

The more than \$5 billion that the NEA has awarded to date represents the Arts Endowment's continuing commitment to making the arts a vital part of the lifeblood of this nation. The NEA extends its work through partnerships with state arts agencies, regional arts organizations, local leaders, other federal agencies, and the philanthropic sector, reaching rural, suburban, and metropolitan areas in all 50 states, the District of Columbia, special jurisdictions, and military installations.

The NEA relies on a simple, straightforward credo: "Art works."

- "Art works" refers to works of art themselves – the performances, objects, and texts that are the creations of artists.
- "Art works" represents the ways that art works on individuals and communities to change, confront, challenge, and inspire us; to allow us to imagine and to aspire to something more.
- "Art works" declares that with a sector comprising more than 3.2 percent – or \$504 billion – of GDP, and more than two million workers in U.S. arts and cultural industries, arts jobs are real jobs that are part of the real economy. Arts workers pay taxes, and art contributes to economic growth. In recent years, arts and cultural production has resulted in trade surpluses (excess of exports over imports). In 2011, while the U.S. economy slowly recovered from a recession, arts and cultural production yielded a trade surplus of \$10.5 billion, injecting income and jobs directly into the U.S. economy. Beyond economic impacts, the arts contribute to neighborhood revitalization and the livability of American towns and cities.

Those three elements taken together – the works of art themselves, the ways that art works on individuals and communities, and art as work – are the guiding principles underpinning the agency's Strategic Plan FY 2014-2018; they have shaped our grant guidelines; and they guide implementation of *Our Town*, which invests in partnerships among arts, cultural, or design organizations and local governments for creative placemaking projects. These planning, design, or arts engagement projects contribute toward the livability of communities and help transform them into lively, beautiful, and sustainable places with the arts at their core.

Mission, Goals, and Accomplishments

During this reporting period, the NEA has operated within the framework of our FY 2014-2018 Strategic Plan, which includes the following components:

Vision: A nation in which every American benefits from arts engagement, and every community recognizes and celebrates its aspirations and achievements through the arts.

Mission: To strengthen the creative capacity of our communities by providing all Americans with diverse opportunities for arts participation.

Goals:

1. Support the creation of art that meets the highest standards of excellence.
2. Foster public engagement with diverse and excellent art.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.
- Provide all Americans with opportunities for arts engagement by funding projects that create arts experiences.
- Enable Americans of all ages to acquire knowledge or skills in the arts by funding projects that address lifelong learning in the arts.
- Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.
- Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
- Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.
- Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.
- Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.
- Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.

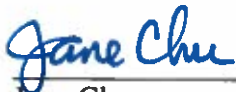
A wide array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include:

- A five-year national research agenda, focused on 1) new data collections for public access; 2) analyses of the arts' value and impact; and 3) strategic research alliances, one example being the 18-member federal Interagency Task Force on the Arts and Human Development.
- *Our Town*, an initiative built on the premise – confirmed through experience and empirical research – that the arts are an essential element of the lives of individuals and the livability of our communities.
- Collaborations with other Federal agencies (e.g., the Departments of Defense, Commerce, Education, Agriculture, and Interior, and the National Science Foundation) in recognition of the ability of the arts to help them achieve their goals. Key initiatives include the [NEA / Walter Reed Healing Arts Partnership](#), which supports service members dealing with Traumatic Brain Injury, post-traumatic stress, and other psychological health conditions; and a partnership with the Department of Commerce's Bureau of Economic Analysis to measure the value of the creative sector on a macroeconomic level.
- Other program leadership initiatives such as *Blue Star Museums*; *The Big Read*; *Poetry Out Loud: National Recitation Contest*; *Shakespeare for a New Generation*; and the *Mayors' Institute for City Design*.
- Outreach through programs such as *Challenge America*; grant information workshops (now conducted largely through online media); an online newsletter; our completely redesigned Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.

- Efficiency improvements obtained through expanded use of technology, including the use of remote grant application review panels – conducted via the Internet – across most of our programs, thereby reducing travel costs and further enhancing the efficiency and effectiveness of the application review process.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable. I am very pleased to report that during the course of our FY 2014 audit, the auditors identified no material weaknesses. Thus, the Agency has received its twelfth consecutive unqualified opinion.



Jane Chu
Chairman

November 14, 2014



Fiscal Year 2014 Annual Financial Report

~ Management's Discussion and Analysis ~

The National Endowment for the Arts has chosen to produce an Agency Financial Report (AFR) and Annual Performance Report (APR). The NEA will include its FY 2014 Annual Performance Report with its FY 2016 Congressional Budget Justification in February 2015 and will post it on the NEA Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

The mission of the National Endowment for the Arts is *to strengthen the creative capacity of our communities by providing all Americans with diverse opportunities for arts participation*. We envision a nation in which every American benefits from arts engagement, and every community recognizes and celebrates its aspirations and achievements through the arts.

An independent federal agency, the Arts Endowment was established by Congress in 1965 and is lead by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the National Council on the Arts. Up to eighteen private citizens are appointed by the President and confirmed by the Senate; six ex officio members are Members of Congress appointed by the Senate and House leadership. Currently, the Council has sixteen confirmed members.

During FY 2014, the Arts Endowment was structured around several major programmatic and administrative Divisions headed by two Deputy Chairmen, a Chief Information Officer (CIO), and several other office heads – all of whom reported to a Senior Deputy Chairman, the Agency's Chief Operating Officer, or to the Chairman. The Senior Deputy Chairman reports to the Chairman, who also oversees a support staff and several direct-report office heads. The major program Division, Programs and Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. An organizational chart can be found at the end of this section. In FY 2014, the Agency operated with a staffing level of 150 full-time equivalents, well below our authorized level of 162.

Here are some highlights of key activities, accomplishments, and issues from FY 2014.

1. Enhanced Use of Technology

In FY 2014, we continued our joint development with the National Endowment for the Humanities of a new Web-based grants management system (eGMS) that will provide significant new capabilities and efficiencies in the management of our grant application, award, and monitoring processes. The partnership has now expanded to include the Institute of Museum and Library Services (IMLS). We expect to transition to the new system in FY 2016.

NEA designed and implemented a remote ("virtual") panel pilot process in the fall of 2012. The pilot involved two panel meetings in the dance and music disciplines. The pilot was a success. In FY 2013, 15 panel meetings were held virtually, or 18% of total panels conducted. In FY 2014, this figure increased to 73 virtual panel meetings, or 79% of total panels conducted. The wide-scale implementation of virtual panels was a success. We learned that convening review panels virtually versus in-person yielded the same results at considerable cost-savings.¹ Panelists thoroughly reviewed all applications, had quality discussions, and recommended applications of high artistic excellence and merit for funding. Panelists and NEA staff were overwhelmingly satisfied with the quality of virtual grant application review.

Virtual panels also yielded other practical benefits: panels were supported by existing low-cost technologies; meeting planning was streamlined; the agency's pool of potential panelists was expanded; and staff and panelists had more time to focus on application review. As a result, the NEA has moved to a policy of 100 percent virtual panels, implemented as of May 2014. All panels since that time and going forward are virtual.

2. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency's Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our budgets and programs consistent with our available HC resources. We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission. During FY 2014, through a contract with an outside firm, we completed a comprehensive workflow analysis. Through focus groups and an online survey, nearly 90% of Agency staff provided direct input into this process. Agency leadership continues to rely on recommendations resulting from the analysis in an ongoing process of enhancing agency operations.

The results of the 2014 Federal Employee Viewpoint Survey confirm the high engagement of our work force. In fact, 97% of NEA employees said that when needed, they are willing to put in the extra effort to get a job done, and nearly 88% said that they are constantly looking for ways to do their job better. Notably, nearly 90% of employees said they know how their work relates to the Agency's goals and priorities, 92% believe that the work they do is important, and 90% say they are held accountable for achieving results.

3. Improved Financial Management

With our use of the U.S. Department of Transportation's (DOT) Oracle-based fully-compliant financial system (Delphi), we continue to realize improvements in reliability and timeliness of financial information. We also continue to participate in the Delphi users' group to ensure that Agency needs are considered in the development of system enhancements and upgrades, particularly pertaining to DOT's upgrade to the Federalized Version of Oracle 12i during FY 2014.

¹ Panelists are compensated \$500 per virtual panel. In FY 2013, 459 panelists were funded at \$490K, and in FY 2014, 540 panelists were funded at \$320K.

4. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. Along with other federal agencies, we published a revised Strategic Plan, covering FY 2014-2018, last December, which provides the foundation for all of our activities.

Performance Goals, Objectives, and Results

The Arts Endowment supports excellent art with broad public reach in multiple disciplines across all 50 States, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military facilities. We are committed to providing the American people with access to the best of their artistic legacy. Through our efforts on behalf of the American people, we strive to achieve the following:

Goals:

1. Support the creation of art that meets the highest standards of excellence.
2. Foster public engagement with diverse and excellent art.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.
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- Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.
- Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
- Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.
- Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.
- Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.
- Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.

Core Grant Programs

Through its direct grant-making, the NEA annually supports in the range of 30,000 concerts, readings, and performances and more than 3,000 exhibitions of visual and media arts with annual, live attendance of 20 million. NEA-supported broadcast performances on television, radio, and cable will have additional audiences of at least 300 million. In FY 2014, the NEA made nearly 2,300 awards totaling \$116 million. NEA awards annually generate \$600 million or more in matching support; in our direct grant-making categories alone, the ratio of matching to federal funds generally approaches or exceeds 10:1, far surpassing the required non-federal match of at least one to one.

Grantees' final reports – supplemented by selected post-award reviews conducted by the Office of Research and Analysis – provide the bulk of the information that allows us to report what we actually achieved across the country with our programmatic activities. We have found the actual results to be consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which will be reported in our Annual Performance Report in February 2015) indicate that our goals for these programs are being met and that our programs are effective.

The NEA's core grant programs include signature initiatives, such as *Poetry Out Loud*, *The Big Read*, and *Shakespeare in American Communities*, which extend the reach of the agency through partnerships with State Arts Agencies and Regional Arts Organizations; *Our Town*, which builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them; and *Challenge America*, which helps the agency carry out its commitment of ensuring a direct grant in every Congressional district.

Our Town, the most recent addition to the agency's core grant programs, has seen considerable success. Over the first four years of the initiative, 256 grant awards have been made in all 50 states plus the District of Columbia. In FY 2014, 271 applications were received and 66 awards were made for just over \$5.07 million in 38 states (of the 43 that applied). The *Our Town* grants reinforce the NEA's belief that the arts are as fundamental to a community's success as safety, land use, transportation, education, and housing, and help build stronger communities in cities and rural areas alike. Awarded grants represent a mix of urban, tribal, suburban, and rural communities, and about 30 percent went to towns with populations between 1,000 and 10,000 people.

In the fall of 2014, the NEA launched [*Exploring Our Town*](#), an e-storybook featuring case studies and lessons learned from 70 of the initial 191 *Our Town* projects. *Exploring Our Town* will provide insights into the practice of arts-based community development.

Federal Partnerships

In addition to our core grant programs, the Agency pursues its goals through partnerships with other public and private partners. Notably, we have established the following ground-breaking partnerships with other federal agencies.

NEA / Walter Reed Healing Arts Partnership

The NEA and Walter Reed National Military Medical Center have formed the [NEA / Walter Reed Healing Arts Partnership](#) to explore how creative arts therapy and arts engagement programs can improve health and well-being in military healthcare settings. Since 2011, the NEA / Walter Reed partnership has supported creative arts therapies across disciplines for patients at Walter Reed National Military Medical Center. This includes music therapy programs being offered across the Walter Reed campus, and music and writing therapy for troops as part of the clinical treatment of patients at the National Intrepid Center of Excellence (NICoE). NICoE is a DOD institute dedicated to providing cutting-edge evaluation, treatment planning, research, and education for service members and their families dealing with the complex interactions of the signature wounds from the Afghanistan and Iraq wars: Traumatic Brain Injury (TBI), post-traumatic stress, and other psychological health conditions. Additionally, a request to develop a formal research protocol to improve our understanding of the impacts of these interventions is being prepared for submission to the Walter Reed's Institutional Review Board.

In November 2013, the program was expanded to bring art therapy to military patients at Fort Belvoir Community Hospital's satellite NICoE center. The NEA supported a three-month pilot program at the new NICoE satellite dubbed "Intrepid Spirit One," in which a creative arts therapist conducted visual arts therapy, mask-making, and therapeutic writing activities with wounded warriors diagnosed with mild TBI and psychological health conditions. The creative arts therapist worked with patients individually and in groups over the course of their treatment, using these therapies to help patients communicate, externalize, and process traumatic events, as well as improve and restore neurological and physical function.

The NEA and Fort Belvoir conducted a review of the program at the conclusion of the 90-day pilot. Patients' feedback described their ability to process trauma through these interventions, and to address issues related to identity, frustrations, transitions, grief, personal insight, cognitive skills and memory. One service member summarized his experience as “awesome - it has given me great insight into my issues and awareness so I can address them.”

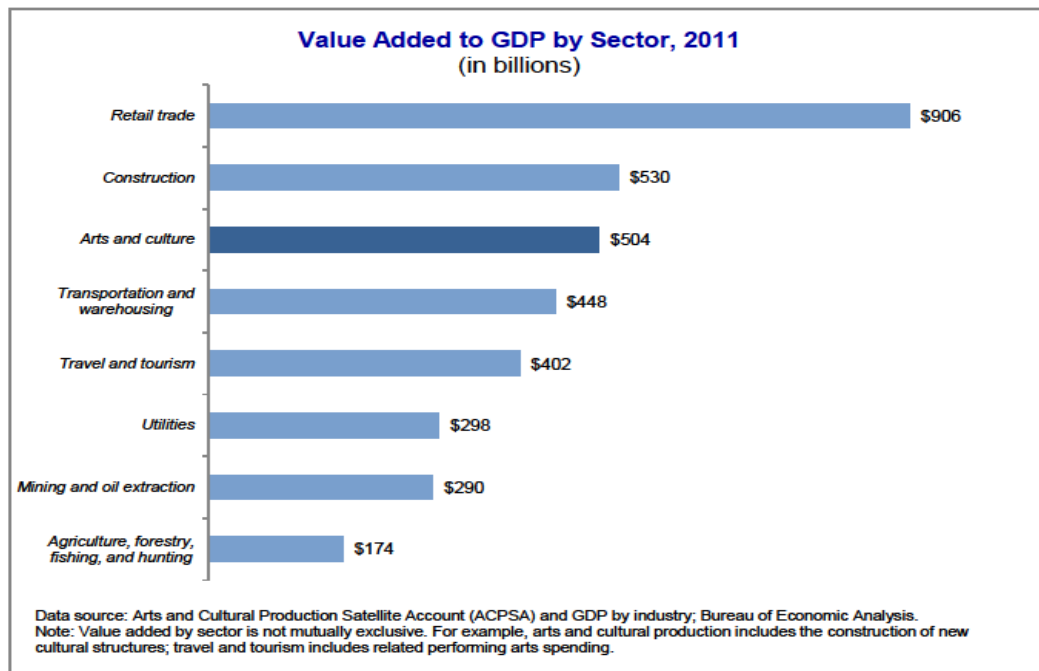
Eighteen caregivers and hospital staff members responded to a survey at the conclusion of the pilot. One hundred percent of them expressed positive feelings about the incorporation of art therapy into the treatment plans at this NICoE satellite. There was also unanimous agreement in the belief that these interventions should continue to be offered as a component of integrated care for this patient population. One caregiver wrote that the art therapy session “is just where the healing begins. With continued expression comes personal growth, healing, and self improvement. The effects do not stop at the service member. The effects ripple to family and friends. Art therapy allows for healing, psychosocial skill building, and self expression directly correlated to an increase in quality of life.” These assessments have led to a request from Fort Belvoir to extend their partnership with the NEA through 2016.

The program expansion at Belvoir Hospital's NICOE satellite is the latest NEA effort to support healing arts in military settings by integrating art therapy into treatment plans for active-duty military patients. Through this approach, creative arts therapists work side-by-side with neurologists, physical therapists, and other healthcare providers to create individualized treatment plans for military patients with TBI and psychological health issues. Together with Walter Reed and NICOE partners, the NEA has helped support and develop therapeutic writing and music therapy for patients, and is working to advance research on the effects of these interventions.

The Arts Endowment is at the forefront of a national effort to support arts and health in the military. The NEA is a member of the National Initiative on Arts & the Military, a consortium of federal agency, military, nonprofit and private sector partners working together to advance the policy, research, and practice of arts and arts therapy as tools for health in the military. The initiative just released a white paper, [*Arts, Health, and Well-Being Across the Military Continuum*](#), on integrating the arts into healthcare for the military and their families.

NEA and U.S Bureau of Economic Analysis

The Department of Commerce's Bureau of Economic Analysis (BEA) and the NEA announced in October 2012 that for the first time the American creative sector would be measured on a macroeconomic level. In December 2013, BEA released [preliminary estimates](#) of the value added by arts and cultural industries to the nation's gross domestic product (GDP): 3.25 percent, or more than \$504 billion.



“The positive value of arts and culture on society has been understood on a human level for millennia. With this new effort, we are now able to quantify the impact of arts and culture on GDP for the very first time,” said U.S. Secretary of Commerce Penny Pritzker.

These statistics derived from the tracking of a cohort of arts and cultural commodities and industries and computing their annual impact on GDP. The resulting Arts and Cultural Production Satellite Account (ACPSA) is the nation's first attempt to account for the total economic contributions of arts and cultural industries. Initial results include a time-series of data from 1998 to 2011, statistics on the gross output of arts and cultural industries, the number of workers they employ, the compensation of those workers, import/export patterns, and the indirect economic impact of consumer demand for arts and cultural goods and services.

Accompanying release of the estimates, BEA and the NEA issued a joint news release, drawing the public's attention to a unique series of resources developed by ORA and posted to the NEA website. These resources include: a comprehensive guide for understanding the inner workings and significance of the satellite account; more detailed tabulations than provided on the BEA website; a series of "issue briefs" on ACPSA-related findings; and a proposed methodology for capturing the economic value of arts and cultural workers and of the arts volunteer sector.

From 2014-2016, the NEA will support BEA's annual updates to the ACPSA, revised to align with new "benchmark" input-output (IO) tables. It is expected that the account will include an additional \$50 billion attributed to "artistic originals," a BEA category that will in the future be regarded as capital assets, rather than expenditures, and therefore will contribute to the valuation of U.S. GDP. Another key technical change is that the 2014-2016 account iterations will reflect "real" versus "nominal" dollars. Beyond implementing these revisions, the BEA will pilot-test methods to create a regional and/or state-by-state version of ACPSA, for a product to be released by the end of FY 2016.

In addition to the work discussed above, the NEA has continued to grow its partnerships with other federal agencies. These include, but are not limited to:

U.S. Department of Agriculture (USDA) and the [Citizens' Institute on Rural Design \(CIRD\)](#): The department officially joined CIRD as a project partner in 2012 to help rural communities with populations of 50,000 or fewer enhance their quality of life and economic vitality through facilitated design workshops. The department's Office of Rural Development is engaging its nationwide network of local offices to support the institute.

Department of Defense (DOD) and [Blue Star Museums](#): The NEA continues to collaborate with DOD, Blue Star Families, and more than 2,000 museums across America to offer free admission all summer long to active duty military families. In 2013, 2,178 museums participated; 659 were new museums that had not participated in previous years. It is estimated that the program served more than 700,000 active-duty military personnel and their families this past summer.

Department of Health and Human Services (HHS) and the [Arts and Human Development Taskforce](#): A task force of 19 federal agencies and departments has convened regularly since November 2011 to encourage more and better research on how the arts help people reach their full potential at all stages of life. The task force is a result of [The Arts and Human Development: Framing a National Research Agenda for the Arts, Lifelong Learning, and Individual Well-Being](#).

Department of Housing and Urban Development (HUD) and the [Hurricane Sandy Taskforce](#): The NEA served as a special partner to HUD on [REBUILD BY DESIGN](#), a multi-stage regional design competition, providing critical expertise and guidance to shape and launch the competition, as well as serve as subject matter experts for the selection process. The NEA built on this work by launching a [Mayors' Institute on City Design](#) session targeting smaller communities along the New Jersey shore.

National Endowment for the Humanities (NEH) and the National Science Foundation (NSF): The NEA is collaborating with NEH and NSF to leverage mutual efforts to build an interdisciplinary community of researchers and practitioners who cross over the fields of art, science, humanities, education, and engineering, with a particular awareness of the new possibilities enabled by digital technology. The NEA, NSF, and NEH recognize that it would be advantageous for the three agencies to combine investments and expertise around strategically aligned goals to ensure that the agencies' resources achieve maximum impact at the intersection of the arts, science, and the humanities.

White House's Strong Cities, Strong Communities (SC2) Initiative: The NEA's community development investment expanded significantly through participation in the White House's Strong Cities, Strong Communities (SC2) initiative. This program supports selected post-industrial cities in developing their economic strategies by providing technical assistance from teams of federal agency staff. The NEA joins partner agencies including the Departments of Agriculture, Transportation, and Housing and Urban Development to collaborate with local officials to create broad-based solutions to identified urban challenges. NEA staff participate in this by assisting SC2 communities with their community development strategies, primarily focusing on cities which have received *Our Town* funding. Those recommended *Our Town* grantees and SC2 communities are Cleveland, Ohio; Memphis, Tennessee; New Orleans, Louisiana; Rockford, Illinois; and St. Louis, Missouri.

Improper Payments Reporting

The Arts Endowment has four major fund categories that comprise its “program inventory” (per OMB Circular A-136): Administrative; Program Support; Direct Grantmaking; and Partnership. Based on previous risk assessments conducted in accordance with OMB guidance, none of these “programs” qualifies as risk-susceptible. The percentage of improper payments made has been below the 2.5% threshold (at or below 0.2%), and all payments have been recovered. In FY 2014, the only improper payment was a vendor payment for an invoice that was disbursed at the cumulative bill amount rather than the invoice amount. The system allowed the higher payment only because there were sufficient funds obligated for that

contract. By creating individual obligations for each expense, data integrity of NEA funding is preserved. The vendor notified us and returned the overage, and the records have been corrected. This overpayment was corrected on the next voucher. Due to our strong internal controls, we believe that the NEA has an insignificant risk of improper payments for the 2014 fiscal year.

Analysis of Financial Statements

The Arts Endowment's principal financial statements have been prepared to report the financial position and results of operations of the Agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Arts Endowment in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The Arts Endowment receives an annual appropriation of "no-year" funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment's property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

Here are some financial highlights:

- NEA's FY 2014 net appropriation was \$146.021 million, an increase of about \$7.638 million from FY 2013's sequestration level of \$138.383 million. Appropriations are the primary source of financial resources for the Agency, so the financial position of the Endowment generally trends with the amount of appropriations received each year.
- The Endowment received about \$1.175 million in reimbursable agreement authority in FY 2014, an increase of about \$168,000 from FY 2013's level of \$1.007 million. As with appropriations, the financial resources of the agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2014 and FY 2013 are provided below:

- Fund Balance with Treasury - In FY 2014, NEA received about \$7.6 million more in appropriations than in FY 2013. This accounts for the majority of the increase this year.
- Investments - Funds eligible for investment by the Endowment were invested as of September 30, 2014, as interest rates improved.
- Accounts Receivable - The decrease represents the collection payments received.

- Property, Plant and Equipment - The purchase price less depreciation is reflected on the balance sheet. New purchases of copiers associated with our headquarters relocation accounts for the increase in the FY 2014 account.
- Other Assets - This line item consists entirely of advances to other parties. The increase in advances during FY 2014 is due to additional intragovernmental advances. See Note 7 for additional details.
- Accounts Payable - This is primarily due to an increase in advances received from other government agencies.
- Accrued Liabilities - The ratio of grant obligations to outlays increased during FY 2014, resulting in a larger accrued liability compared to FY 2013.
- Other liabilities - Reductions in accrued funded payroll accounts for the majority of the decrease. See Note 9 for additional details.
- Net Position - The overall net position of the Endowment increased by \$4,177,511, which can be attributed to an increase in assets and appropriations that exceeds the increase in liabilities.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2014 compared to FY 2013:

- Obligations - Three items factor into the 4% increase in obligations. First, there was an increase in the net appropriation in FY 2014 compared to FY 2013. Second, there was an increase in reimbursable authority received from other agencies compared to FY 2013. Third, there was an increase in the dollar amount of grants awarded during 2014.
- Outlays - Fewer grant payment requests (and/or with less requested) received in FY 2014 accounts for the reduction of outlays during FY 2014.

Significant qualitative issues relating to financial management. During FY 2014, the Agency continued to allocate indirect costs – and will continue to do so over the next few years – to the former strategic goals until they are fully expended.

Overall, and given the unpredictability of Congressional appropriations from year to year, the current financial condition of the Agency is strong. The Agency received an unqualified audit opinion on its FY 2014 financial statements as presented herein. This is the Agency's twelfth consecutive year receiving a clean audit opinion. As mentioned above, the Agency's programs and operations are funded primarily through appropriated funding as provided by Congress and approved by the President. Therefore, year to year changes in the Agency's financial condition are highly dependent on these appropriated funding levels.

[Continued on next page.]

**National Endowment for the Arts
Table of Key Measures**

Amounts in Dollars	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
Costs¹				
Total Financing Sources	\$ 144,087,439	\$ 139,980,753	\$ 4,106,686	2.9%
Less: Net Cost	143,919,669	139,217,992	4,701,677	3.4%
Net Change of Cumulative Results of Operations	167,770	762,761	\$ (594,991)	(78.0)%
Net Position²				
Assets:				
Fund Balance with Treasury	\$ 145,213,801	\$ 136,613,054	\$ 8,600,747	6.3%
Investments	1,143,423	1,111,296	32,127	2.9%
Accounts Receivable	152,972	161,800	(8,828)	(5.5)%
Property, Plant, and Equipment	264,010	166,499	88,683	58.6%
Other	359,784	329,683	30,101	9.1%
Total Assets	\$ 147,133,990	\$138,382,332	\$ 8,751,658	6.3%
Liabilities:				
Accounts Payable	\$ 608,680	\$ 587,265	\$ 21,415	3.6%
Accrued Liabilities	42,438,654	37,790,136	4,648,518	12.3%
Other	1,947,045	2,042,831	(95,786)	(4.7)%
Total Liabilities	\$ 44,994,379	\$ 40,420,232	\$ 4,574,147	11.3%
Net Position (Assets-Liabilities)	\$ 102,139,611	\$ 97,962,100	\$ 4,177,511	4.3%

¹ Source : Statement of Net Cost and Statement of Changes in Net Position

² Source: Balance Sheet

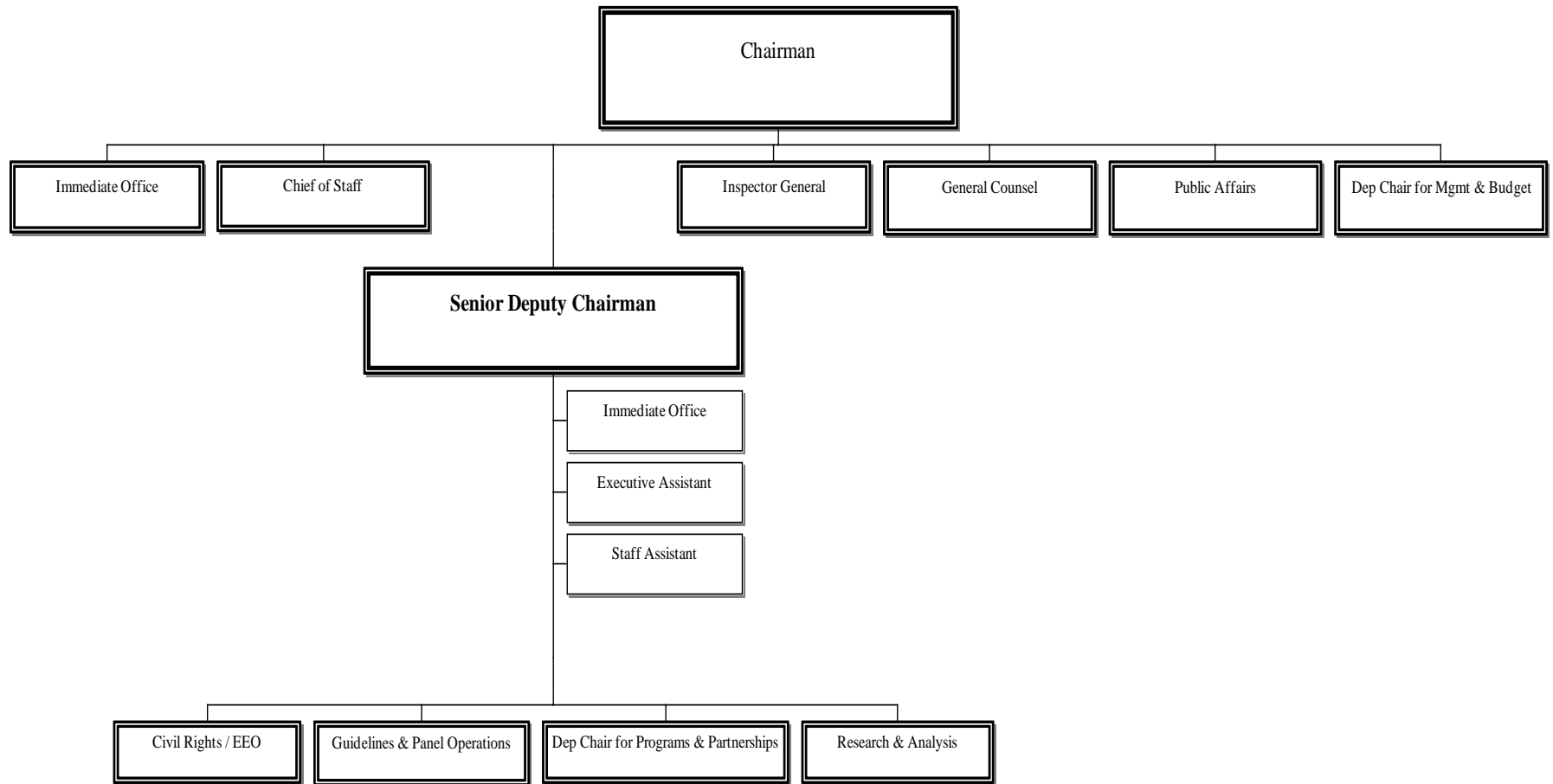
Systems, Controls, and Legal Compliance

The National Endowment for the Arts is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and, where necessary, modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

Future Effects of Existing Events and Conditions

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS); as noted in last year's report, we have taken decisive action to address this. With the approval of OMB, we established a strategic partnership with the National Endowment for the Humanities (since joined by the Institute for Museum and Library Services), through which we will migrate our outdated GMS to a new eGMS – a modern, flexible, cloud-based grants management system that is being developed collaboratively and will be maintained by the NEH. We expect to see major improvements in our internal grants management and panel management processes as a result of this partnership; our grant applicants, grantees, and panelists will also find that doing business with the NEA will be easier and more flexible. Development work began in FY 2012, and is currently on schedule and within budget; we expect to begin using the eGMS in FY 2016.

*National Endowment for the Arts – FY 2014 Annual Financial Report
Management’s Discussion and Analysis
Organization Chart*



NEA Strategic Plan FY 2014-2018
Summary of Goals and Objectives

<u>Programmatic Goals</u>		
Goal 1: Creation of Art	Goal 2: Engagement with Art	Goal 3: Knowledge and Understanding of Art
Support the creation of art that meets the highest standards of excellence.	Foster public engagement with diverse and excellent art.	Promote public knowledge and understanding about the contributions of the arts.
<u>Programmatic Objectives</u>		
1.1 Expand the portfolio of American art by investing in projects dedicated to the creation of excellent art.	2.1 Provide all Americans with opportunities for arts engagement by funding projects that create arts experiences.	3.1 Expand and promote evidence of the value and/or impact of the arts by fulfilling a long-term research agenda and by using traditional and social media channels to distribute findings and new information.
	2.2 Enable Americans of all ages to acquire knowledge or skills in the arts by funding projects that address lifelong learning in the arts.	3.2 Increase the domestic and international impact of the arts by establishing strategic partnerships with public and private organizations.
	2.3 Strengthen American communities by investing in projects that seek to improve the livability of places through the arts.	
<i>Cross-Cutting Programmatic Objective:</i> Ensure that NEA-funded activities reach Americans throughout the country by making awards for projects that address a diverse spectrum of artistic disciplines, geographic locations, and underserved populations.		
<u>Management Goal</u>		
Enable the NEA mission through organizational excellence.		
1.1 Provide the American people with outstanding service by attracting, maintaining, and optimizing a diverse, creative, productive, and motivated workforce.	1.2 Be an effective and vigilant steward of public funds by sustaining transparent and efficient grant-making and administrative processes.	



***Fiscal Year 2014
Annual Financial Report
~ Management Assurances ~***

Overall Internal Control

The National Endowment for the Arts' management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The Arts Endowment conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Arts Endowment can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2014, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Internal Control over Financial Reporting


The National Endowment for the Arts conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with *OMB Circulars A-123, Management's Responsibility for Internal Control*, and *A-136, Financial Reporting Requirements*. Based on the results of this evaluation and that of our independent auditors, the National Endowment for the Arts can provide reasonable assurance that internal control over financial reporting as of September 30, 2014, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Table 1.
Summary of Financial Statement Audit

Audit Opinion		Unqualified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0

Table 2.
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance		Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance		Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance		Systems conform				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total non-conformances</i>	0	0	0	0	0	0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	Yes			Yes		
1. System Requirements				Yes		
2. Accounting Standards				Yes		
3. USSGL at Transaction Level				Yes		


 Jane Chu
 Chairman
 November 14, 2014

***Financial Statements
and Related Auditor's Report
Fiscal Year 2014***

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Fiscal Year 2014 Annual Financial Report

~ A Message from the Director of Finance ~

I am pleased to join with Chairman Chu in presenting the National Endowment for the Arts' *Fiscal Year 2014 Annual Financial Report*. This report summarizes the Arts Endowment's financial performance during the past year.

During Fiscal Year 2014, we accomplished a major upgrade to the agency's financial system, Oracle Federal Financials with Release 12, which is hosted through a cross-servicing agreement with the U.S. Department of Transportation (DOT) and is fully compliant with the requirements of the Office of Management and Budget's Office of Federal Financial Management. All FY 2014 transactions were recorded in the system. The Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting transition is in its final implementation stages, and the agency's physical move of offices was completed in May 2014.

Our financial statements independent audit has been successfully completed and has resulted in an unqualified opinion for the twelfth consecutive year. The audit revealed no material weaknesses or deficiencies.

In Fiscal Year 2015, we will continue to enhance reporting systems, ensure adherence to all applicable guidance, and optimize efficiencies through improved use of technology. In addition, we will continue to jointly develop a new Cloud-based grants management system with the National Endowment for the Humanities, which will include integration with our finance system where relevant and feasible. We are confident that our finance system supports the agency's ongoing commitment to ensuring that we are fully accountable for the funds that have been entrusted to us for the benefit of the American people.

A handwritten signature in blue ink that reads "Sandra L. Stueckler".

Sandra L. Stueckler
Director of Finance

November 14, 2014

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National Endowment for the Arts
Audit of Financial Statements
As of and for the Years Ended
September 30, 2014 and 2013

Submitted By

Leon Snead & Company, P.C.
Certified Public Accountants & Management Consultants



416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
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Independent Auditor's Report

Inspector General, National Endowment for the Arts
Chairman, National Endowment for the Arts

We have audited the accompanying balance sheets of the Arts Endowment, as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position and budgetary resources (the financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the Arts Endowment's internal control over financial reporting and tested the Arts Endowment's compliance with certain provisions of applicable laws, regulations, contracts and grant agreements that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the Arts Endowment's financial statements as of and for the years ended September 30, 2014 and 2013, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting.

As a result of our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, nothing came to our attention that caused us to believe that the Arts Endowment failed to comply with applicable laws, regulations, contracts or grant agreements that have a material effect on the financial statements insofar as they relate to accounting matters.

The following sections discuss in more detail our opinion on the Arts Endowment's financial statements, our consideration of the Arts Endowment's internal control over financial reporting, our tests of the Arts Endowment's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Arts Endowment, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, statements of changes in net position and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Endowment as of September 30, 2014 and 2013, and the related net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

During the year, the Arts Endowment adopted Statement of Federal Financial Accounting Standards (SFFAS) 29, *Heritage Assets and Stewardship Land*, as amended by SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, for disclosure of heritage assets. These disclosures are found in the Notes to the Financial Statements, Notes 1.H., 6 and 23. Our opinion is not modified with respect to this matter.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Such responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and pertinent provisions of Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements* (the OMB audit bulletin). Those standards and the OMB audit bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the Arts Endowment's internal control or its compliance with laws, regulations, and significant provisions of contracts and grant agreements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures and other accompanying information are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of the Arts Endowment as of and for the years ended September 30, 2014 and 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Arts Endowment's internal control over financial reporting (internal control) as a basis for

designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arts Endowment's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arts Endowment's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in the OMB audit bulletin. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Arts Endowment. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe that the Arts Endowment failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Arts Endowment's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, contracts, and grant agreements insofar as they relate to accounting matters.

Restricted Use Relating to Reports on Internal Control and Compliance

The purpose of the communication included in the sections identified as “Report on Internal Control” and “Report on Compliance” is solely to describe the scope of our testing of internal control over financial reporting and compliance, and to describe any material weaknesses, significant deficiencies, or instances of noncompliance we noted as a result of that testing. Our objective was not to provide an opinion on the design or effectiveness of the Arts Endowment's internal control over financial reporting or its compliance with laws, regulations, contracts or grant agreements. The two sections of the report referred to above are integral parts of an audit performed in accordance with *Government Auditing Standards* in considering the Arts Endowment's internal control over financial reporting and compliance. Accordingly, those sections of the report are not suitable for any other purpose.

Agency Comments and Auditor Evaluation

In commenting on the draft of this report, the management of the Arts Endowment concurred with the facts and conclusions in our report. A copy of management's response accompanies this report.

A handwritten signature in black ink that reads "Leon Snead & Company, P.C." with a stylized flourish at the end.

Leon Snead & Company, P.C.
November 17, 2014



**National
Endowment
for the Arts**
arts.gov

November 17, 2014

Ms. Auvonett Jones
Inspector General
National Endowment for the Arts
400 7th St. SW
Washington, DC 20506

Dear Ms. Jones:

Thank you for managing the audit of the Arts Endowment's Fiscal Year 2014 financial statements, and related review of our internal controls and compliance with laws and regulations, as required by the Accountability of Tax Dollars Act of 2002. This was the Arts Endowment's 12th full financial audit, and we are proud to have once again received an unqualified opinion.

We appreciate the time and effort committed by you, your colleagues, and the auditors from the independent accounting firm of Leon Snead & Company, P.C., who worked on this audit. We take our financial accounting and reporting responsibilities seriously, and welcome your oversight and insight to strengthen our financial operations.

Sincerely,

A handwritten signature in blue ink that reads "Jane Chu".

Jane Chu
Chairman

National Endowment for the Arts
BALANCE SHEET
As of September 30, 2014 and 2013
(In Dollars)

	September 30, 2014			September 30, 2013		
	All Other	Funds from Dedicated Collections (Combined Total) (Note 12)	Cumulative	All Other	Funds from Dedicated Collections (Combined Total) (Note 11)	Cumulative
ASSETS (Notes 2-7):						
Intragovernmental:						
Fund Balance With Treasury (Note 2)	\$ 143,849,339	\$ 1,364,462	\$ 145,213,801	\$ 135,332,133	\$ 1,280,921	\$ 136,613,054
Investments (Note 3)	-	1,143,423	1,143,423	-	1,111,296	1,111,296
Other Assets (Note 7)	285,396	62,140	347,536	285,377	-	285,377
Total Intragovernmental	<u>\$ 144,134,735</u>	<u>\$ 2,570,025</u>	<u>\$ 146,704,760</u>	<u>\$ 135,617,510</u>	<u>\$ 2,392,217</u>	<u>\$ 138,009,727</u>
Assets with the Public:						
Accounts Receivable, Net (Note 4)	\$ 152,972	-	\$ 152,972	\$ 161,800	-	\$ 161,800
General Property, Plant and Equipment, Net (Note 5)	264,010	-	264,010	166,499	-	166,499
Other Assets (Note 7)	12,248	-	12,248	44,306	-	44,306
TOTAL ASSETS	<u><u>\$ 144,563,965</u></u>	<u><u>\$ 2,570,025</u></u>	<u><u>\$ 147,133,990</u></u>	<u><u>\$ 135,990,115</u></u>	<u><u>\$ 2,392,217</u></u>	<u><u>\$ 138,382,332</u></u>
LIABILITIES (Notes 8,9):						
Intragovernmental:						
Accounts Payable (Note 9)	\$ 608,680	-	\$ 608,680	\$ 587,265	-	\$ 587,265
Total Intragovernmental	<u>\$ 608,680</u>	<u>\$ -</u>	<u>\$ 608,680</u>	<u>\$ 587,265</u>	<u>\$ -</u>	<u>\$ 587,265</u>
With the Public:						
Accrued Liabilities (Note 9)	\$ 42,359,063	\$ 79,591	\$ 42,438,654	\$ 37,746,356	\$ 43,780	\$ 37,790,136
Other Liabilities (Note 8,9)	1,945,384	1,661	1,947,045	2,042,831	-	2,042,831
TOTAL LIABILITIES	<u>\$ 44,913,127</u>	<u>\$ 81,252</u>	<u>\$ 44,994,379</u>	<u>\$ 40,376,452</u>	<u>\$ 43,780</u>	<u>\$ 40,420,232</u>
Commitments and Contingencies (Note 11)						
NET POSITION:						
Unexpended Appropriations	\$ 101,181,974	-	\$ 101,181,974	\$ 97,172,233	-	\$ 97,172,233
Cumulative Results of Operations	(1,531,136)	2,488,773	957,637	(1,558,570)	2,348,437	789,867
TOTAL NET POSITION	<u>\$ 99,650,838</u>	<u>\$ 2,488,773</u>	<u>\$ 102,139,611</u>	<u>\$ 95,613,663</u>	<u>\$ 2,348,437</u>	<u>\$ 97,962,100</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 144,563,965</u></u>	<u><u>\$ 2,570,025</u></u>	<u><u>\$ 147,133,990</u></u>	<u><u>\$ 135,990,115</u></u>	<u><u>\$ 2,392,217</u></u>	<u><u>\$ 138,382,332</u></u>

The accompanying notes are an integral part of these statements

National Endowment for the Arts
STATEMENT OF NET COST
For the Years Ended September 30, 2014 and September 30, 2013
(In Dollars)

	2014	2013
Program Costs (Note 13):		
Access to Artistic Excellence:		
Gross Costs	\$ 780,359	\$ 3,986,984
Less: Earned Revenue	(2,352)	(844,300)
Net Access to Artistic Excellence Costs	\$ 778,007	\$ 3,142,684
Learning in the Arts:		
Gross Costs	\$ 130,331	\$ 127,291
Less: Earned Revenue	-	(404,006)
Net Learning in the Arts Costs	\$ 130,331	\$ (276,715)
Partnerships for the Arts:		
Gross Costs	\$ 1,015,638	\$ 3,406,511
Less: Earned Revenue	-	-
Net Partnerships for the Arts Costs	\$ 1,015,638	\$ 3,406,511
Arts Creation:		
Gross Costs	\$ 25,272,042	\$ 23,416,430
Less: Earned Revenue	(51,388)	(49,993)
Net Arts Creation Costs	\$ 25,220,654	\$ 23,366,437
Engagement with the Arts:		
Gross Costs	\$ 67,835,622	\$ 64,649,347
Less: Earned Revenue	(837,934)	(948,710)
Net Engagement with the Arts Costs	\$ 66,997,688	\$ 63,700,637
Contribution of the Arts:		
Gross Costs	\$ 49,395,801	\$ 45,880,802
Less: Earned Revenue	(1,994)	(2,364)
Net Contribution of the Arts Costs	\$ 49,393,808	\$ 45,878,438
Total Program Costs	\$ 143,536,126	\$ 139,217,992
Net Cost of Operations	\$ 143,536,126	\$ 139,217,992

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2014 and 2013
(In Dollars)

	FY 2014			FY 2013		
	Funds from Dedicated Collections (Combined Total) (Note 12)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Combined Total) (Note 11)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balances	\$ 2,348,437	\$ (1,558,570)	\$ 789,867	\$ 2,501,472	\$ (2,287,698)	\$ 213,774
Adjusted Beginning Balances	\$ 2,348,437	\$ (1,558,570)	\$ 789,867	\$ 2,501,472	\$ (2,474,365)	\$ 27,107
Budgetary Financing Sources:						
Appropriations Used		\$ 142,011,259	\$ 142,011,259	\$ -	\$ 138,372,259	\$ 138,372,259
Non-Exchange Revenue	745	-	745	257	-	257
Donations	460,268	-	460,268	397,664	-	397,664
Imputed financing	-	1,231,624	1,231,624	-	1,210,573	1,210,573
Total Financing Sources	\$ 461,013	\$ 143,242,883	\$ 143,703,896	\$ 397,921	\$ 139,582,832	\$ 139,980,753
Net Cost of Operations	320,677	143,215,449	143,536,126	550,956	138,667,036	139,217,992
Net Change	\$ 140,336	\$ 27,434	\$ 167,770	\$ (153,035)	\$ 915,796	\$ 762,761
Cumulative Results of Operations	\$ 2,488,773	\$ (1,531,136)	\$ 957,637	\$ 2,348,437	\$ (1,558,570)	\$ 789,867
Unexpended Appropriations:						
Beginning Balances		\$ 97,172,233	\$ 97,172,233		\$ 96,974,607	\$ 96,974,607
Corrections of Errors		-	-		186,667	186,667
Adjusted Beginning Balances		\$ 97,172,233	\$ 97,172,233		\$ 97,161,274	\$ 97,161,274
Budgetary Financing Sources:						
Appropriations Received		\$ 146,021,000	\$ 146,021,000		\$ 146,020,992	\$ 146,020,992
Appropriations Used		(142,011,259)	(142,011,259)		(138,372,259)	(138,372,259)
Total Budgetary Financing Sources		\$ 4,009,741	\$ 4,009,741		\$ 10,959	\$ 10,959
Total Unexpended Appropriations		\$ 101,181,974	\$ 101,181,974		\$ 97,172,233	\$ 97,172,233
Net Position	\$ 2,488,773	\$ 99,650,838	\$ 102,139,611	\$ 2,348,437	\$ 95,613,663	\$ 97,962,100

The accompanying notes are an integral part of these statements.

National Endowment for the Arts
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and September 30, 2013
(In Dollars)

	2014	2013
BUDGETARY RESOURCES		
Unobligated Balance Brought Forward, Oct 1	\$ 12,053,265	\$ 12,929,987
Unobligated Balance Brought Forward, Oct 1, as Adjusted	\$ 12,053,265	\$ 12,929,987
Recoveries of Prior Year Unpaid Obligations	1,970,886	1,783,832
Unobligated Balance from Prior Year Budget Authority, Net	\$ 14,024,151	\$ 14,713,819
Appropriations (discretionary and mandatory)	\$ 146,482,079	\$ 138,780,883
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,171,721	965,341
TOTAL BUDGETARY RESOURCES	\$ 161,677,951	\$ 154,460,043
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 14)	\$ 145,900,766	\$ 142,406,778
Unobligated Balance, End of Year:		
Apportioned	15,758,096	12,034,176
Unapportioned	19,089	19,089
Total Unobligated Balance, End of Year	\$ 15,777,185	\$ 12,053,265
TOTAL BUDGETARY RESOURCES	\$ 161,677,951	\$ 154,460,043
CHANGE IN OBLIGATED BALANCE:		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, Oct 1	\$ 126,574,080	\$ 137,514,952
Obligations Incurred	145,900,766	142,406,778
Outlays (Gross)	(138,797,208)	(151,563,818)
Recoveries of Prior Year Unpaid Obligations	(1,970,886)	(1,783,832)
Unpaid Obligations, End of Year	\$ 131,706,752	\$ 126,574,080
Uncollected Payments:		
Uncollected Payments from Federal Sources, Brought Forward, Oct 1	\$ (903,252)	\$ (1,816,283)
Change in Uncollected Payments from Federal Sources	(223,651)	913,031
Uncollected Payments from Federal Sources, End of Year	(1,126,903)	(903,252)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year	125,670,828	135,698,669
Obligated Balance, End of Year	130,579,849	125,670,828
BUDGET AUTHORITY AND OUTLAYS, NET:		
Budget Authority, Gross (discretionary and mandatory)	\$ 147,653,800	\$ 139,746,224
Actual Offsetting Collections (discretionary and mandatory)	(948,071)	(1,878,372)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	(223,651)	913,031
Budget Authority, Net (discretionary and mandatory)	\$ 146,482,078	\$ 138,780,883
Outlays, Gross (discretionary and mandatory)	\$ 138,797,208	\$ 151,563,818
Actual Offsetting Collections (discretionary and mandatory)	(948,071)	(1,878,372)
Outlays, Net (discretionary and mandatory)	\$ 137,849,137	\$ 149,685,446
Distributed Offsetting Receipts	(460,268)	(402,664)
Agency Outlays, Net (discretionary and mandatory)	\$ 137,388,869	\$ 149,282,782

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
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The following footnotes and instructions include the disclosure requirements contained in the Statements of Federal Financial Accounting Standards (SFFAS).

NOTE 1. Significant Accounting Policies:

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. The NEA was established as a result of the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These statements were prepared from the books and records of the NEA in conformity with accounting principles generally accepted in the United States, and the OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136), Revised September 18, 2014, which supersedes OMB Circular No. A-136, dated October 21, 2013, and the following memoranda and bulletin:

- M-06-27 *Fiscal Year 2006 Year-end Accounting Guidance for Earmarked Funds* (September 22, 2006), available at <http://www.whitehouse.gov/sites/default/files/omb/assets/omb/memoranda/fy2006/m0627.pdf>.
- *Future External Reporting Changes* (December 21, 2001), available at http://www.whitehouse.gov/sites/default/files/omb/financial/year_end_reporting_2001.pdf.
- *Requirements for Accountability of Tax Dollars Act* (December 6, 2002), located at http://www.whitehouse.gov/sites/default/files/omb/financial/accountability_of_tax_dollars.pdf
- M-04-20 *FY 2004 Performance and Accountability Reports and Reporting Requirements for the Financial Report of the United States Government* (July 22, 2004), available at <http://www.whitehouse.gov/sites/default/files/omb/memoranda/fy04/m04-20.pdf>.
- Memorandum FY 2002 *Financial and Performance Reporting*, dated October 18, 2002.
- Bulletin 01-09 *Form and Content of Agency Financial Statements*, revised September 25, 2001, available at <http://www.whitehouse.gov/omb/bulletins/b01-09.html>.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the NEA.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 1. Significant Accounting Policies (Continued):

C. Basis of Accounting

Transactions are recorded on a budgetary basis, with large categories such as payroll and grant liabilities recorded on an accrual basis. Under the accrual method, expenses are recognized when liabilities are incurred and revenues are recognized when earned, without regard to payment or receipt of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants Council designated FASAB as the accounting standards authority for Federal government entities.

Created in 1990, the Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government. OFFM responsibilities include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the CFO Act.

http://www.whitehouse.gov/omb/financial_default/

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address insurance issues that may arise in the course of national exhibits.

NEA was granted the authority to receive donations and to invest in interest-bearing accounts. Appropriate accounting guidelines are followed for both restricted and unrestricted funds.

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NOTE 1. Significant Accounting Policies (Continued):

D. Revenues and Other Financing Sources (Cont'd)

NEA enters into Intragovernmental reimbursable agreements. The NEA's pricing policy on these exchange revenue transactions is based on mutually approved agreements, with no profits or losses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Some donations carry restrictions as to the use of donated funds. See Note 2 for additional information.

F. Advances and Prepayments

NEA interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, expenditures are incurred and advances reduced. Advances are recorded for intragovernmental transactions until the expenditures or revenues are reported by the trading partner, at which time the advance is reduced and the expense/revenue is recognized. Advances are also recorded for payments to vendors for the portion of services that extend beyond the current fiscal year.

G. General Property, Plant and Equipment, Net

NEA policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. NEA's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases with a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	10 Years
Computer Equipment & Software	4 Years
Office Equipment	7 Years
Vehicles	8 Years

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 1. Significant Accounting Policies (Continued):

H. Heritage Assets

Heritage assets are property, plant and equipment that possess significant historic, cultural, artistic or natural characteristics. These assets are reported in terms of physical units rather than cost of other monetary values per SFFAS 29 *Accounting for Heritage Assets and Stewardship Land* and as amended by SSFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32, paragraph 6.b*. See Note 6 Heritage Assets for additional information.

I. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by NEA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

J. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

K. Accounts Receivable

NEA uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

L. Annual, Sick and Other Leave

Annual leave and credit hours are accrued when earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 1. Significant Accounting Policies (Continued):

M. Retirement Plans

NEA employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 participate in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA does not report on its financial statements information pertaining to the retirement plans covering its employees, except for imputed costs related to retirement (see N. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.

N. Imputed Benefit Costs

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) provides the cost factors that are applied to the Agency's records.

O. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. Significant Accounting Policies (Continued):

P. Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Q. Funds from Dedicated Collections

Amounts reported as funds from dedicated collections are represented by one appropriation, "Gifts and Donations" 59X8040; there are no eliminations of this type of activity within the agency, nor any need for additional subtotal or total columns.

R. Fiduciary Activities

Various artists have loaned their artwork to the Endowment for display in certain agency offices. These artworks are not assets of the Federal Government. Fiduciary activities are not recognized in the proprietary financial statements, but are reported in the notes to the financial statements. See Note 19, Fiduciary Activities.

S. Cost Accounting Methodology

In fiscal year 2012, the Endowment began operating under a new strategic plan. This new plan established new goals and objectives that are separate from those established under the previous plan. As a result, NEA created three new programs that appear on the Statement of Net Cost: Arts Creation, Engagement with the Arts, and Contribution of the Arts. Costs for grants issued in FY 2012 and future years will be recorded under these new programs. Costs related to payment and overall support of grants issued prior to FY 2012 are attributed to the historical programs listed in the previous strategic plan, namely, Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts. Costs attributed to these historical programs are allocated based on estimates of personnel and agency resources used to support remaining grants under the previous strategic plan

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 2: Fund Balance With Treasury

	September 30, 2014	September 30, 2013
Fund Balance:		
Trust Funds	\$ 1,364,462	\$ 1,280,921
Appropriated Funds	143,849,339	135,332,133
Fund Balance with Treasury – Subtotal	\$ 145,213,801	\$ 136,613,054
Invested in Public Debt Treasury Bills, net	1,143,233	1,111,039
Fund Balance With Treasury – Total	\$ 146,357,034	\$ 137,724,093
Status of Budgetary Resources:		
Unobligated Balance:		
Available Other	\$ 13,554,421	\$ 9,899,756
Available Trust Fund	2,203,675	2,134,600
Subtotal – Available	\$ 15,758,096	\$ 12,034,176
Unavailable	19,089	19,089
Obligated Balance not yet Disbursed Other	\$ 131,402,732	\$ 126,316,720
Obligated Balance not yet Disbursed Trust Fund	304,020	257,360
Subtotal - Obligated	\$ 131,706,752	\$ 126,574,080
Unfilled Orders – Reimbursable	(1,126,903)	(903,252)
	\$ 146,357,034	\$ 137,724,093

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 3: Investments

September 30, 2014	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 1,143,233	Effective Interest	\$ 370	\$ 1,143,603	\$ 1,143,603
Accrued Interest on Public Debt Bills	190				190
Total	\$ 1,143,423				\$1,143,793
<hr/>					
September 30, 2013	Cost	Amortization Method	Unamortized Premium / Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Non-Marketable: Par Value	\$ 1,111,039	Effective Interest	\$ 426	\$ 1,111,465	\$ 1,111,465
Accrued Interest on Public Debt Bills	257				257
Total	\$ 1,111,296				\$1,111,722

The Federal Government does not set aside assets to pay for future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the NEA as evidence of its receipts. Treasury securities are an asset to the NEA and a liability to the U.S. Treasury. Because the NEA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government.

Treasury securities provide the NEA with authority to draw upon the U.S. Treasury to make future expenditures. When the NEA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 4: Accounts Receivable

	September 30, 2014	September 30, 2013
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 150,750	\$ 161,250
Receivables Due from the Public	2,222	550
	\$ 152,972	\$ 161,800
	-	-
Net Receivables	\$ 152,972	\$ 161,800

NOTE 5: General Property, Plant, And Equipment

<u>Class of Property</u>	September 30, 2014			September 30, 2013		
	Cost	Accumulated Depreciation	Book Value	Cost	Accumulated Depreciation	Book Value
Equipment	\$ 338,461	\$ 74,451	\$ 264,010	\$ 205,675	\$ 39,176	\$ 166,499
Total	\$ 338,461	\$ 74,451	\$ 264,010	\$ 205,675	\$ 39,176	\$ 166,499

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 6: Heritage Assets

Heritage assets are property, plant and equipment that are unique for one of the following reasons: historic or natural significance; cultural, educational, or artistic importance. Federal agencies are not required to assign a cost on the Balance Sheet for heritage assets. These items support the agency mission by demonstrating artistic excellence, creativity, and innovation. To qualify as a heritage asset, items must meet the Endowment's objective criteria to classify an item as a heritage asset, which includes: the age of the asset, the artist/author of the asset, the materials used in the asset's creation, the cultural importance of the asset, and the process by which the asset was created. All items classified as heritage assets, though generally individual items, are considered a collection in totality. NEA's collection contains two major categories of heritage assets: Artwork and Decorative Art, and Furniture.

Arts Works and Decorative and Furniture

The NEA collection includes principally unique works of art by known artists that are not permanently attached to or designed for the structure(i.e., collectible).

Heritage Assets Category	Qty as of 9/30/14	Qty as of 9/30/13	Change
Artwork and Decorative Art	194	194	0%
Furniture	40	40	0%
Total	234	234	0%

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 7: Other Assets

	September 30, 2014	September 30, 2013
Intragovernmental Advances:		
Institute of Museum and Library Services (1)	\$ 62,140	\$ -
Department of Commerce (2)	231,489	220,000
Department of Transportation (3)	53,907	65,377
Total Intragovernmental	\$ 347,536	\$ 285,377
With the Public:		
Advances to Vendors (4)	\$ 12,248	\$ 44,306
Total Other Assets	\$ 359,784	\$ 329,683
Other Information:		

- (1) Support for the National Student Poets Program.
- (2) Advance to Census Bureau to provide Census statistics to the agency.
- (3) Advance to the Department of Transportation for the purchase of Metrochecks and accounting system hosting.
- (4) Advances to various contractors for services to be provided in future periods.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 8: Liabilities Not Covered By Budgetary Resources

	September 30, 2014	September 30, 2013
Intragovernmental:		
Unfunded FECA Liability	\$ 2,509	\$ 5,071
Custodial Liability	150,750	161,250
Total Intragovernmental	\$ 153,259	\$ 166,321
Accrued Unfunded Leave	\$ 1,216,103	\$ 1,374,580
Actuarial FECA Liability	12,560	28,986
Total Liabilities Not Covered by Budgetary Resources	\$ 1,381,922	\$ 1,569,887
Total Liabilities Covered by Budgetary Resources (Note 9)	\$ 43,612,457	\$ 38,850,345
Total Liabilities	\$ 44,994,379	\$ 40,420,232

Liabilities not covered by budgetary resources are financial responsibilities that do not yet have financial resources provided by Congress. Action from Congress is required before resources can be provided.

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NOTE 9: Other Liabilities

	September 30, 2014			September 30, 2013		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental:						
Custodial Liability	\$ -	\$ 150,750	\$ 150,750	\$ -	\$ 161,250	\$ 161,250
Employer Contributions	-	105,421	105,421	-	88,444	88,444
Unfunded FECA Liability	-	2,509	2,509	-	5,071	5,071
Advances from Other Government Agencies	-	350,000	350,000		332,500	332,500
Total Intragovernmental Liabilities	\$ -	\$ 608,680	\$ 608,680	\$ -	\$ 587,265	\$ 587,265
With the Public:						
Accrued Payables - Invoices	\$ -	\$ 218,375	\$ 218,375	\$ -	\$ 237,446	\$ 237,446
Accrued Funded Payroll	-	483,628	483,628	-	387,385	387,385
TSP Employer Contributions	-	16,379	16,379	-	14,434	14,434
Actuarial FECA Liability	-	12,560	12,560	-	28,986	28,986
Accrued Unfunded Leave	-	1,216,103	1,216,103	-	1,374,580	1,374,580
<i>Total Other Liabilities</i>	\$ -	\$ 1,947,045	\$ 1,947,045	\$ -	\$ 2,042,831	\$ 2,042,831
Accrued Liabilities	-	\$ 42,438,654	\$ 42,438,654	-	\$ 37,790,136	\$ 37,790,136
Total Liabilities with the Public	\$ -	\$ 44,385,699	\$ 44,385,699	\$ -	\$ 39,832,967	\$ 39,832,967
Total Liabilities	\$ -	\$ 44,994,379	\$ 44,994,379	\$ -	\$ 40,420,232	\$ 40,420,232

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 10: Leases

Brief Description of Occupancy Agreement:

The occupancy agreement (OA) between NEA and GSA for the Old Post Office (OPO) building includes rental of office space and one surface parking space from October 2013 through February 2014. A draft OA between NEA and GSA for the Constitution Center (CC) dated March 13, 2014 was established for the period March through September 2014; although, the NEA did not move to the CC until May 2014. The draft OA includes rental of office space and two structured parking spaces for the agency's vehicles. GSA provided a revised draft OA for the CC dated July 11, 2014 with increased estimated costs based on a higher square footage (60,015 sq ft) than the March 13, 2014 draft (58,370 sq ft). As of September 30, 2014, an OA has not been finalized between NEA and GSA for the CC.

FY 2013 and FY 2014 rent figures reflect actual charges to date, with an additional obligation listed for FY 2014 for a possible adjustment due to the increase in square footage provided in the July 11, 2014 draft OA. Estimates for FY 2015 through FY 2024 are based on the draft OA dated July 11, 2014.

RENT BY BUILDING / FY	FY 2013 ACTUAL	FY 2014 ACTUAL	FY 2014	FY 2014 (Estimate for increased square footage)	Total FY 14
OPO Annual Rent	\$2,881,632	\$1,205,215	5 Months		\$1,205,215
CC Annual Rent		\$1,575,038	7 Months	\$ 97,468	\$1,672,506
Constitution Center	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Estimated Annual Rent	\$2,772,144	\$2,719,150	\$2,752,478	\$2,786,807	\$2,904,874
Constitution Center	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024 (5 months)
Estimated Annual Rent	\$3,000,371	\$3,037,882	\$3,076,519	\$3,116,315	\$1,240,891

The Agency's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 10: Leases (continued)

Brief Description of Copier Lease:

The NEA entered into a 60 month operating lease for copiers commencing October 1, 2008 thru April 30, 2014. In May, 2014, the National Endowment for the Arts purchased replacement copiers for use in the Constitution Center; see Note 5 for additional details.

FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
\$169,519	\$169,687	\$163,480	\$154,623	\$73,381

NOTE 11: Commitments and Contingencies

The Arts Endowment is subject to a potential claim related to a class action lawsuit brought generally by former federal employees against more than fifty agencies of the United States government, including the Arts Endowment. No amounts have been accrued in the Arts Endowment financial statements because the amount of any judgment or settlement of the suit that might occur in the future cannot be reasonably determined.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12: Funds from Dedicated Collections (Combined Total)

	Gifts and Donations	
Balance Sheet	September 30, 2014	September 30, 2013
ASSETS		
Fund Balance with Treasury	\$ 1,364,462	\$ 1,280,921
Investments	1,143,423	1,111,296
Other Assets - Advances	62,140	-
Total Assets	\$ 2,570,025	\$ 2,392,217
LIABILITIES		
Accrued Expenses	\$ 79,591	\$ 43,780
Other Liabilities	1,661	-
Total Liabilities	\$ 81,252	\$ 43,780
NET POSITION		
Cumulative Results of Operations	\$ 2,488,773	\$ 2,348,437
Total Liabilities and Net Position	\$ 2,570,025	\$ 2,392,217

Statement of Net Cost	September 30, 2014	September 30, 2013
Gross Program Costs	\$ 320,677	\$ 550,956
Less Earned Revenue	-	-
Net Cost of Operations	\$ 320,677	\$ 550,956

Statement of Changes in Net Position	September 30, 2014	September 30, 2013
Net Position Beginning of Period	\$ 2,348,437	\$ 2,501,472
Non-Exchange Revenue	745	257
Cash Donations	460,268	397,664
Less: Net Cost of Operations	(320,677)	(550,956)
Change in Net Position	\$ 140,336	\$ (153,035)
Net Position End of Period	\$ 2,488,773	\$ 2,348,437

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 13: Intragovernmental Costs and Exchange Revenue

	FY 2014			FY 2013		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Access to Artistic Excellence:						
Program Costs	\$ 82,202	\$ 698,157	\$ 780,359	\$ 96,209	\$ 3,890,775	\$ 3,986,984
Earned Revenue	(2,352)	-	(2,352)	(844,300)	-	(844,300)
Net Costs - Access to Artistic Excellence	\$ 79,850	\$ 674,157	\$ 778,007	\$ (748,091)	\$ 3,890,775	\$ 3,142,684
Learning in the Arts:						
Program Costs	\$ 7,364	\$ 122,967	\$ 130,331	\$ 11,869	\$ 115,465	\$ 127,291
Earned Revenue	-	-	-	(404,006)	-	(404,006)
Net Costs - Learning in the Arts	\$ 7,364	\$ 122,967	\$ 130,331	\$ (392,180)	\$ 115,465	\$ (276,915)
Partnerships for the Arts:						
Program Costs	\$ 7,809	\$ 1,007,829	\$ 1,015,638	\$ 12,539	\$ 3,393,972	\$ 3,406,511
Earned Revenue	-	-	-	-	-	-
Net Costs - Partnerships for the Arts	\$ 7,809	\$ 1,007,829	\$ 1,015,638	\$ 12,539	\$ 3,393,972	\$ 3,406,511

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 13: Intragovernmental Costs and Exchange Revenue (continued)

	FY 2014			FY 2013		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
Arts Creation:						
Program Costs	\$ 4,224,567	\$ 21,047,475	\$ 25,272,042	\$ 3,978,917	\$ 19,437,513	\$ 23,416,430
Earned Revenue	(51,388)	-	(51,388)	(49,993)	-	(49,993)
Net Costs - Arts Creation	\$ 4,173,179	\$ 21,047,475	\$ 25,220,654	\$ 3,928,924	\$ 19,437,513	\$ 23,366,437
Engagement with the Arts:						
Program Costs	\$ 4,874,876	\$ 62,960,747	\$ 67,835,623	\$ 5,778,507	\$ 58,870,840	\$ 64,649,347
Earned Revenue	(837,934)	-	(837,934)	(948,710)	-	(948,710)
Net Costs - Engagement with the Arts	\$4,036,942	\$ 62,960,747	\$ 66,997,689	\$ 4,829,797	\$ 58,870,840	\$ 63,700,637
Contribution of the Arts:						
Program Costs	\$ 192,769	\$ 49,203,032	\$ 49,395,801	\$ 2,225,920	\$ 43,654,882	\$ 45,880,802
Earned Revenue	(1,994)	-	(1,994)	(2,364)	-	(2,364)
Net Costs - Contribution of the Arts	\$ 190,775	\$ 49,203,032	\$ 49,393,808	\$ 2,223,556	\$ 43,654,882	\$ 45,878,438
Total (including previous page):						
Program Costs	\$ 9,389,587	\$ 135,040,207	\$ 144,429,794	\$ 12,103,918	\$ 129,363,447	\$ 141,467,365
Earned Revenue	(893,668)	-	(893,668)	(2,249,573)	-	(2,249,373)
Net Cost of Operations	\$ 8,495,919	\$ 135,040,207	\$ 143,536,126	\$ 9,854,545	\$ 129,363,447	\$ 139,217,992

The Arts Endowment receives funds from other Federal agencies that participate in the Arts Endowment's program awards. The Arts Endowment may also incur intragovernmental costs for its participation in program awards or activities of other Federal agencies. NEA adopted a new strategic plan beginning in FY 2012 creating Arts Creation, Engagement with the Arts, and Contribution of the Arts programs. Costs for grants issued prior to FY 2012 are recorded to the Access to Artistic Excellence, Learning in the Arts, and Partnerships for the Arts programs.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013
(In Dollars)

NOTE 14: Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

The NEA is provided with funding only under Category B.

Category B	Direct	Reimbursable	Total
Apportionments	\$ 146,482,079	\$ 1,134,819	\$ 147,616,898
Obligations	\$ 144,765,947	\$ 1,134,819	\$ 145,900,766

NOTE 15: Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balances, net, end of period includes the following:

Undelivered Orders:	2014	2013
Direct	\$ 87,893,371	\$ 87,467,148
Reimbursable	(910,707)	918,771
Undelivered Orders, net, end of period	\$ 88,804,078	\$ 88,385,919

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013
(In Dollars)

NOTE 16: Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2013 Statement of Budgetary Resources and the FY 2013 actual numbers presented in the FY 2015 Budget of the United States Government (Budget) are summarized below.

The President's Fiscal Year 2016 Budget, which will include actual numbers for fiscal year 2014, has not yet been published. The FY 2016 Budget is expected to be published in February 2015 and to be available at <http://www.whitehouse.gov/omb/budget/>.

FY 2013 (in \$ millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 154	\$ 142	\$ -	\$ 149
Difference (see above)	-	1	-	1
Budget of US Government	\$ 154	\$ 143	\$ -	\$ 150

NOTE 17: Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 20 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

NOTE 18: Incidental Custodial Collections

	2014	2013
Proprietary Receipts from the Public	\$ -	\$ -
Intrabudgetary Receipts Deducted by Agencies	10,500	5,000
Total Custodial Collections	\$ 10,500	\$ 5,000

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013
(In Dollars)

NOTE 19: Fiduciary Activities

The Endowment has several paintings on loan from various artists to be displayed in certain offices. These pieces are not assets of the Endowment, but they are managed and insured with the intent to return these pieces to the artists according to their respective loan agreements. The artworks are valued and insured at fair market value.

National Endowment for the Arts
Schedule of Fiduciary Activity

For the Period Ended September 30, 2014 and 2013

	September 30, 2014	September 30, 2013
	Various Paintings	Various Paintings
Fiduciary net assets, beginning of year	\$ 103,000	\$ 88,500
Contributions	-	16,000
Disposition of assets	(21,000)	(1,500)
	(21,000)	14,500
Increase/(Decrease) in fiduciary net assets	(21,000)	14,500
Fiduciary net assets, end of period	\$ 82,000	\$ 103,000

National Endowment for the Arts
Fiduciary Net Assets

As of September 30, 2014 and 2013

	September 30, 2014	September 30, 2013
FIDUCIARY ASSETS		
Other Assets (various paintings)	\$ 82,000	\$ 103,000
FIDUCIARY LIABILITIES		
Less: Liabilities	-	-
Total Fiduciary net assets	\$ 82,000	\$ 103,000

Items included in the other assets line above include paintings from multiple artists.

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013
(In Dollars)

NOTE 20: Reconciliation of Net Cost of Operations to Budget

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 145,900,766	\$ 142,406,778
Less: Spending Authority from offsetting collections and recoveries	(3,142,607)	(2,749,173)
Obligations net of offsetting collections and recoveries	\$ 142,758,159	\$ 139,657,605
Less: Offsetting receipts	(460,268)	(402,664)
Net Obligations	\$ 142,287,391	\$ 139,254,941
Other Resources		
Imputed financing from costs absorbed by others	\$ 1,231,624	\$ 1,210,572
Other Resources	-	-
Net Other Resources Used to Finance Activities	\$ 1,231,624	\$ 1,210,572
Total Resources Used to Finance Activities	\$ 143,529,516	\$ 140,465,513
 Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods and Services and Benefits Ordered but not received	\$ (177,008)	\$ (1,710,035)
Resources that fund expenses recognized in prior periods	(174,904)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	460,268	402,664
Resources that Finance the Acquisition of Assets	(132,786)	-
Total Resources used to finance items not part of the Net Cost of Operations	\$ (24,430)	\$ (1,307,371)
Total Resources Used to finance the Net Cost of Operations	\$ 143,505,086	\$ 139,158,142
 Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring/Generating Resources in Future Periods (Note 17):		
Increase in Annual Leave Liability	\$ -	\$ 24,767
Other – Change in FECA Liability	-	11,313
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ -	\$ 36,080
Components not Requiring or Generating Resources:		
Depreciation and Amortization	\$ 35,274	\$ 29,382
Other not Requiring Outlay of Resources	(4,234)	(5,612)
Total components of Net Cost of Operations that will not require or generate resources	\$ 31,040	\$ 23,770
Total components of net cost of operations that will not require or generate resources in the current period	\$ 31,040	\$ 59,850
Net Cost of Operations	\$ 143,536,126	\$ 139,217,992

NATIONAL ENDOWMENT FOR THE ARTS
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended September 30, 2014 and 2013
(In Dollars)

NOTE 21: Donations In-Kind

During FY 2014, NEA received in-kind gifts from several organizations. Gifts included payment of NEA staff travel, lodging, and meals, as well as payment of NEA staff registration fees to attend and/or participate in various arts related functions. The total value of these in-kind donations was \$20,416 in FY 2014 and \$25,175 in FY 2013.

NOTE 22: Change in Presentation

As of FY 2014, NEA changed the presentation of Note 13, Intragovernmental Costs and Exchange Revenue to align employee benefits with guidance provided by OMB Circular A-136.

NOTE 23: Change in Application of Principle

As of FY 2014, NEA adopted the SFFAS 29, *Accounting for Heritage Assets and Stewardship Land* and as amended by SSFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32, paragraph 6.b* to account for the recognition that some of NEA's collection of art, decorative art objects, and furniture should be characterized as heritage assets. All items have been inventoried and appraised, and a directive is being drafted to address acquisition, maintenance, and disposition of the artworks and furniture collection. See "Significant Accounting Policies", Note 1H, *Heritage Assets* policy and Note 6, *Heritage Assets* for additional information.



MEMORANDUM

Memo 15-01

DATE: November 15, 2014

TO: Jane Chu, Chairman

FROM: Tonie Jones, Inspector General 

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The National Endowment for the Arts (NEA) is required to submit an Annual Financial Report (AFR) to the Office of Management and Budget (OMB) in November 2014. The AFR contains a number of sections that address financial management and, to a lesser extent, performance issues. OMB Circular A-136, *Financial Reporting Requirements*, requires that the Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency.

After careful analysis, it is our assessment that the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability represent the top management and performance challenges for NEA. We also acknowledge that the Agency's programs and operations will experience management and performance challenges as a result of relocating to new offices in early 2014. The rationale for our perspective on each of the top challenges is outlined below.

Financial Management. NEA's top financial management challenges for FY 2015 will be to keep pace with the various government-wide modernization efforts and regulatory changes, while maintaining accounting operations and improving efficiency and effectiveness of NEA work procedures, systems and staff cross-training.

In FY 2014, NEA implemented a check reading system to allow NEA to "deposit checks" electronically; completed a major upgrade of the U.S. Department of Transportation - Enterprise Services Center (DOT-ESC) "DELPHI" financial system to the Federalized Version of Oracle 12i; and set up the Finance Office in NEA's new location at Constitution Center.

NEA uses an automated process to create the agency's financial statements that was modified in FY 2012 to address a new strategic plan and the corresponding expense distribution methodology. Data is entered into the trial balance and automatically mapped to each statement, as applicable. NEA has now successfully completed 12 years of independent audits with unqualified opinions.

During FY 2015, the Finance Office will face the following challenges:

- Fill two key staff positions – the team leader/systems accountant and an operating accountant.
- Complete the implementation for the Government-wide Treasury Account Symbol Adjusted Trial Balance System, which replaces the functionality of four Treasury reporting systems, namely, the Federal Agencies' Centralized Trial-Balance System I, the Federal Agencies' Centralized Trial-Balance System II, the Intragovernmental Fiduciary Confirmation System, and the Intragovernmental Reporting and Analysis System.
- Work with the National Endowment for the Humanities (NEH), as a cross-servicer, to develop eGMS grants and panel processes that will interface with the financial system. The current target date for implementation is FY 2016.
- Streamline the number of required DELPHI Discoverer reports and set up a library for all Finance staff to access the same versions of the reports, which will maintain data integrity.
- Work with service provider, DOT-ESC, to develop and implement travel system under E-Gov Travel Service 2 requirements.

Human Capital. FY 2014 represented an era of unprecedented changes within NEA beginning with the physical relocation of the Agency to a new facility. From a human capital perspective, it has been a smooth transition with minor issues that are common place when conducting a major move. NEA is further challenged with relatively high turnover and maintaining the right combination of technical knowledge and subject matter expertise, which is essential to NEA achieving its mission. The Office of Human Resources continues to work with management to ensure that recruitment efforts are targeted and effective in attracting people with the right competencies and skills to serve NEA's mission.

During FY 2013, the Agency procured the services of an outside contractor to conduct a comprehensive workflow analysis. In FY 2015 the next phase of the workflow analysis will begin. The Office of Personnel Management (OPM) will lead the analysis of the actual work being performed by Agency employees. The information gained from this analysis will provide senior management with valuable information in order to make informed and insightful decisions regarding human capital planning for the future.

Information Technology. While the Federal Chief Information Officer's "25-Point Implementation Plan to Reform Federal Information Technology Management" does not apply directly to small agencies¹, NEA has already adopted a number of its mandates. These include the use of shared services and a "cloud first" policy for new systems.

¹ http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/25-point-implementation-plan-to-reform-federal-it.pdf

NEA has made significant strides with shared services. The Agency's finance, electronic official personnel files (eOPF), payroll, and time and attendance systems are all sourced through larger Federal agencies. DOT-ESC provides NEA with the use of DELPHI, an Oracle Federal financial system. OPM provides the e-OPF system and the U.S. Department of Agriculture provides the National Finance Center's electronic time and attendance system (webTA) and its payroll services. These shared service arrangements have proven to be both cost-effective and responsive to NEA's needs.

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). This need is being addressed through an OMB-approved partnership with NEH to jointly develop a new shared system. Work on this cloud-based system began in September 2012. The new GMS, built on a more flexible, operationally efficient platform, will be fully integrated with NEA business processes and seamlessly connected to both Grants.gov and the DELPHI financial system. NEA expects to transition to the system in FY 2016.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including NEA. The *Federal Information Security Management Act of 2002* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. Although we have identified improvement opportunities in the information security program, NEA continues to make progress to comply with these requirements.

Privacy reporting has been included as part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards thousands of grants and cooperative agreements annually. In FY 2014, NEA issued nearly 2,300 awards. The supported organizations vary considerably in size and financial management experience, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

In September 2013, NEA's Grants & Contracts Office (G&C) presented its first "Ask the Grants Office" Webinar, and during the subsequent year expanded and enhanced guidance for its grantees based on the questions that came in during the webinar.

In December 2013, OMB issued final guidance for 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

Awards. Besides adopting Title 2 CFR Part 200 in regulation, staff are updating NEA's General Terms & Conditions, FY 16 funding opportunity text, and other materials to reflect changes that will be part of the new guidance. In particular, the agency has been preparing a pre-award application risk assessment plan (Part 200.205) that will be implemented at various stages of the pre-award process. Another key item that will be implemented includes the Agency's definition of (financial) conflict of interest policies for award recipients to follow. The *Financial Management Guide*, which is implemented by NEA Office of Inspector General (OIG) and provides practical information on what is expected from grantee organizations in terms of fiscal responsibility, will also be updated to reflect the new Part 200. To help grantees manage their requirements, "*My grant at a glance*" is the section of the website that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, due dates for final reports, and more. NEA's G&C also provides considerable technical assistance via telephone and email.

There continues to be a limited number of grantees that have not complied with all applicable Federal grant requirements. These organizations are typically identified by NEA's G&C and referred to NEA OIG for audit or review. Upon evaluating these organizations, NEA OIG has identified the following five most common findings: (1) not ensuring that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds; (2) not having written policies and procedures for the management of Federal awards; (3) not reporting accurate and allowable costs incurred on the Federal Financial Report; (4) not maintaining a Section 504 self-evaluation at the organization, and (5) not maintaining supporting documentation for costs charged to NEA grants.

We acknowledge and encourage NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Continued development and implementation of web-based tools and technical assistance efforts will, in our opinion, improve the likelihood of grantee compliance.

NEA OIG has strong support from NEA management and looks forward to working with you as we address matters of mutual interest. We also welcome any comments on our assessment.

cc: National Council on the Arts
Winona H. Varnon, Deputy Chairman for Management and Budget
Mike Griffin, Chief of Staff
Carolyn Sanders, Chief Information Officer
Nicki Jacobs, Grants and Contracts Director
Marisa E. Marinos, Civil Rights/EEO Director
Craig McCord, Human Resources Director
Ned Read, Special Assistant, Deputy Chairman for Management and Budget
Sandy Stueckler, Finance Director
Monica Waters, Auditor, Office of Inspector General



MEMORANDUM FROM THE CHAIRMAN

DATE: November 16, 2014

TO: Tonie Jones, Inspector General

FROM: Jane Chu, Chairman *Jane Chu 11.16.2014*

SUBJECT: Response to OIG Memorandum Concerning Top Management Challenges

The National Endowment for the Arts continues to benefit from a strong and positive working relationship with the Office of Inspector General (OIG). We appreciate the leadership and communication of the Inspector General and concur with the observations made in your November 15, 2014 memorandum entitled “Top Management Challenges for the National Endowment for the Arts.”

In particular, we appreciate your acknowledgement of the continuing progress and improvements made by the NEA in the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability.

During the past year, the NEA has continued to strengthen its internal operations. As you noted, our finance staff participated in implementing a major upgrade of the Delphi finance system provided by the Department of Transportation (DOT), in addition to maintaining seamless operations during our agency relocation. Also, due to a process change introduced in FY 2012, the Finance Office has eliminated 90% of canceled payments due to bad banking information provided by the payment recipient. With this process improvement, the Finance Office has been able to take over all banking information confirmation responsibilities from the Grants Office, which has the added benefit of ensuring greater security of banking information.

We agree that the area of human capital, with significant transitions and turnover, and a major workload analysis to be conducted by OPM, continues to present challenges in the upcoming year. We are making progress in filling vacancies and are confident that these challenges will be met and that the changes underway promise long-term benefits for the Agency.

Further, implementation of our strategic partnership with the National Endowment for the Humanities to transition to a new Cloud-based grants management system is moving along well and within budget. The new eGMS will result in greater efficiencies in our application and grant processing, improved accountability, and improved customer service; it’s also encouraging to note that the interagency team working on this project continues to identify potential enhancements even as the system is under development. We are also proud that, despite our small size, we are meeting the challenges of government-wide requirements for information security. As we noted last year, this is a task that never really ends, of course, and the Agency is fully committed to staying on course to ensure the security of our information systems and the privacy of the information contained in them.

In our grants management operations, we have continued to identify and act on opportunities to improve the experience of the applicants and grantees who do business with us. As you noted, during FY 2014 we enhanced our guidance for grantees and applicants through the expanded use

of webinars. In addition, we are well on our way to incorporating the changes resulting from OMB's issuance of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200). The NEA Grants Officer was integrally involved in the development of this new guidance, so the agency is uniquely well prepared to adapt to it.

We appreciate the OIG's recognition of the progress the Agency has made during the past year and look forward to working with you on these and other matters of mutual concern in the coming year.